

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 FEAE-00 INT-05 ITC-01 L-03 H-02 PRS-01

PA-02 /107 W

----- 023365

P 151435Z JUL 76

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC PRIORITY 254

UNCLAS HELSINKI 1491

FOR EUR/NE - ACHILLES

E.O. 11652: N/A

TAGS: EGEN, FI

SUBJECT: KEKKONEN STATE VISIT: BRIEFING MATERIALS -- ECONOMIC
DATA

REF: A) ACHILLES/MARCOTT/IRONS TELECON 7/13/76, B) HELSINKI

A-68 (CERP 0004), 6/2/76

1. SUMMARY: REQUESTED STATISTICAL INFORMATION PROVIDED
PLUS COMMENT ON BANK OF FINLAND'S APPROACH TO FOREIGN DEBT
PROBLEM AND TIGHT MONEY POLICY. END SUMMARY.

2. AS OF JUNE 30, UNEMPLOYMENT WAS NEAR 3.1 PERCENT , STILL
ABNORMALLY HIGH BUT DOWN FROM FEBRUARY PEAK OF 4.2 PERCENT.
AVERAGE UNEMPLOYMENT FOR FIRST HALF 1976 WAS 3.8 PERCENT.
UNEMPLOYMENT CURRENTLY EXPECTED TO RACH 4 PERCENT LEVELS
AGAIN NEXT WINTER.

3. AS OF JUNE 30, FINNISH 1976 TRADE DEFICIT TOTALS 1,784
MILLION FMK (\$461 MILLION) LESS THAN HALF OF MID-YEAR 1976
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FIGURE (4,218 MILLION FMK OR \$1,090 MILLION). MINISTRY OF

FINANCE PROJECTING TRADE DEFICIT OF 4.4 BILLION FMK AND CURRENT ACCOUNT DEFICIT OF 5 BILLION. BANK OF FINLAND PROGRESSES TO BELIEVE CURRENT ACCOUNT DEFICIT WILL BE ABOUT 4 BILLION FMK. FOR FIRST FIVE MONTHS (JAN-MAY ONLY), ACCORDING TO FINNISH CUSTOMS DATA, IMPORTS FROM US WERE 611/2 MILLION FMK (\$158.75 MILLION), WHICH IS 6.0 PERCENT OF TOTAL IMPORTS. EXPORTS TO US WERE 262.6 MILLION FMK (\$68.2 MILLION) FOR DEFICIT OF (90 MILLION). NOTE: USDOC DATA MAY DIFFER DUE TO TREATMENT OF TRANSACTIONS OF US MULTINATIONALS. IMBALANCE IN US/ FINNISH TRADE HAS DECLINED SINCE SAME PERIOD LAST YEAR, BOTH IN ABSOLUTE TERMS AND AS A PERCENTAGE OF TOTAL TRADE, BUT IN FULL YEAR 1975 US SALES WERE 2.39 TIMES FINNISH SALES TO US (1.75 IN 1974, AND 2.32 IN 1976 THROUGH MAY).

4. INFLATION DATA IS UNEVEN BECAUSE OF PRICE FREEZE ON CERTAIN STAPLE GOODS JUST NOW BEING RELAXED. CONSUMER PRICE INDEX (1972 EQUALS 100) WAS 152.5 ON DECEMBER 31, 168.5 ON MARCH 31, AND IS 169.5 AS OF JUNE 30. WHOLESALE PRICE INDEX (1949 EQUALS 100) WAS 562 ON DECEMBER 31, 598 ON MARCH 31, AND 603 ON MAY 31. INFLATION FOR YEAR 1976 IS EXPECTED TO BE IN 9-12 PERCENT RANGE.

5. OTHER DATA FOR WHICH NEW FIGURES AVAILABLE: INDUSTRIAL PRODUCTION INDEX IS 127 AS OF APRIL 30. AVERAGE INDUSTRIAL WAGE IN DOLLARS IS 3.63 AS OF MARCH 31. GOLD AND FOREIGN EXCHANGE RESERVE IS MINUS 57 MILLION DOLLARS AS OF APRIL 30. NOTE: BECAUSE OF OFFICIAL BORROWING AND STAND-BY ARRANGEMENTS, LIQUIDITY IS NOT CONSIDERED A PROBLEM BY THE BANK OF FINLAND.

6. BANK OF FINLAND'S APPROACH TO THE FOREIGN DEBT PROBLEM HAS BEEN TO TIGHTEN MONETARY POLICY TO RETARD DOMESTIC DEMAND, AND HENCE THE GROWTH OF IMPORTS, AND TO EXERCISE RESTRAINT ON CAPITAL IMPORTS. THE BANK RECOGNIZES THAT THE DEBT WILL CONTINUE TO GROW THROUGH 1977, BUT BELIEVES THE TIGHT MONEY POLICY AND CAPITAL FLOW CONTROLS WILL PRODUCE A TRADE BALANCE BY 1978 AT THE LATEST. THE BANK RECENTLY FURTHER TIGHTENED ITS CONTROL OVER CAPITAL IMPORTS IN RESPONSE TO IMF CRITICISM. CURRENTLY THE BANK IS STUDYING THE CONTROVERSIAL SUBJECT OF INVESTMENT, AND PARTICULARLY THE QUESTION

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FO WHETHER PUBLIC OR PRIVATE INVESTMENT IS MORE TO BLAME FOR THE LOW PRODUCTIVITY OF CAPITAL IMPORTS. IRONICALLY BANK OFFICERS ARE PUBLICLY IDENTIFIED WITH BOTH SIDES OF THE ISSUE. THE BANK EXPRESSES THE HOPE THAT THE RATIO OF DEBT TO GDP WILL DECLINE RAPIDLY AFTER 1978, ASSUMING TRADE SURPLUSES, AND WILL BE BELOW 15 PERCENT BY THE END OF 1980, AND HENCE SMALL TRADE DEFICITS WOULD BECOME MANAGEABLE AGAIN.

7. THE LIQUIDITY PROBLEM IS CONSIDERED UNDER CONTROL. THE BANK HAS SECURE LINES OF CREDIT FROM COMMERCIAL SOURCES, AND IS SATISFIED THAT FINNISH COMPANIES SEEKING FUNDS, WITH THE BANK'S APPROVAL, WILL HAVE NO PROBLEM. THE BANK HAS CONVERTED ITS GOLD TRANCHE, AND HAS AN OUTSTANDING DEBT TO THE IMF SPECIAL OIL FACILITY, BUT HAS ALLOWED THE JUNE 1975 AGREEMENT, WHICH AUTHORIZED FINLAND TO DRAW ITS FIRST CREDIT TRANCHE TO LAPSE, UNUSED.

8. IT SHOULD BE REMEMBERED THAT THE BULK OF THE DEBT REPRESENTS CLAIMS ON PRIVATE COMPANIES AND THE COMMERCIAL BANKS, NOT ON THE GOVERNMENT OF FINLAND OR ITS ENTITIES.

9. THE BANK'S MAJOR CONCERN IS ITS POLITICAL SITUATION, PARTICULARLY ITS ABILITY TO MAINTAIN THE TIGHT MONEY POLICY FOR AS LONG AS WILL BE NEEDED. THIS CONCERN TYPIFIED BY PUBLIC ATTACK LAST WEEK ON BANK'S TIGHT MONEY POLICY BY NEW COMMUNIST MINISTER OF HOUSING, ARVO HAUTALA. HAUTALA'S SUGGESTION IN MAGAZINE INTERVIEW THAT BANK GOVERNOR MAUNO KOIVISTO BE DISMISSED IF BANK REFUSED TO EASE INTEREST RATES WAS QUICKLY AND FIRMLY REJECTED BY PRIME MINISTER MIETTUNEN WHO EXPRESSED AMAZEMENT AT HAUTALA'S ACTION. NON-COMMUNIST PRESS AND LEADING POLITICIANS, INCLUDING SOCIAL DEMOCRATS HAVE COME TO BANK'S SUPPORT CITING NEED FOR CONTINUED STRONG ANTI-INFLATIONARY MEASURES. CONVERSELY BANK IS SUBJECT TO PRESSURE FROM BUSINESS CIRCLES WHO ARE CONCERNED THAT THE BANK IS LESS SENSITIVE TO THE LIQUIDITY PROBLEMS OF PRIVATE COMPANIES THAN IT SHOULD BE.

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10. REF B CONTAINS LATES AVAILABLE OTHER DATA EXCEPT AS NOTED IN PARA 5 ABOVE. EXCHANGE RATE USED 3.85 TO DOLLAR.
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